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Products Overview

• Japanese market

1. Prescription pharmaceuticals

Products overview for the fiscal year ended March 31, 2003

In the fiscal year under review, sales of prescription pharmaceuticals in the Japanese market totaled ¥217.3 billion, up 31.6% year-on-year. As a result of merger with Nippon Roche, the number of products in our lineup increased significantly from 45 before the merger to 69 in the second half of the fiscal year. In the field of oncology in particular, we achieved a leading position in the domestic market with a lineup of nine products and about a 13% market share.

In oncology, sales of our principal product *Neutrogin*® (a drug for neutropenia), a supportive cancer treatment, declined 3.5% year-on-year to ¥13.7 billion. In the second half of the fiscal year, four Nippon Roche products joined the Chugai lineup: *Furtulon*®, *Herceptin*®, *Rituxan*®, all anti-tumor drugs, and *Kytril*® (a 5-HT3 receptor antagonist anti-nausea drug) for supportive treatment. *Furtulon*® is used for the treatment of breast cancer, stomach cancer, and colon cancer, and is characterized by a strong tumor selectivity. *Herceptin*® is used for the treatment of metastatic breast cancer that overexpresses the HER2 protein, while *Rituxan*® is used for the treatment of CD20 positive malignant tumors. Both *Herceptin*® and *Rituxan*® are expected to have high treatment efficacy given their characteristics as antibody drugs that target specific molecules

(HER2 and CD20) responsible for cancer growth. *Kytril*® also enjoys a high domestic market share of more than 50%.

In the field of renal disease, our top selling product *Epogin*®, a treatment for anemia associated with end-stage renal disease, saw growth in demand, mainly for the pre-filled syringe version launched in May 2001, and sales reached ¥66.1 billion, up 5.4% year-on-year. *Epogin*®'s substance patent will expire in December 2005, but given that it is a biopharmaceutical, we do not believe that generic versions will be easily launched when compared to other general pharmaceuticals. We will maximize the product value of *Epogin*® by enhancing our marketing capabilities and seeking additional indications. Also, *Oxarol*® (injection), used to treat secondary hyperparathyroidism in hemodialysis patients, has smoothly penetrated its market since its launch in September 2000.

In the area of bone and joint diseases, sales of *Alfarol*®, a calcium-bone metabolizer, declined 10.5% year-on-year to ¥17.9 billion, affected by a downward NHI drug price revision as well as an increased burden of co-payment of medical expenses for the elderly and growth in sales of generic products. On the other hand, sales of *Suvenyl*®, an agent for enhancing joint functionality, increased 3.4% year-on-year to ¥6 billion. While we had previously only handled sales of *Suvenyl*®, in order to enhance our position in this therapeutic field, we agreed in June 2003 to a transfer of manufacturing rights for *Suvenyl*® to Chugai from Aventis Pharma Ltd.

Main products, prescription pharmaceuticals (Japanese market)

Product name (Generic name)	Remarks	Sales (Millions of yen)		
		2002/3	2003/3	Change (%)
Epogin (epoetin beta)	Agent for anemia associated with end-stage renal disease	¥62,700	¥66,100	5.4%
Alfarol (alfacalcidol)	Agent for osteoporosis	20,000	17,900	-10.5
Sigmar (nicorandil)	Antianginal agent	15,600	15,500	-0.6
Neutrogin (lenograstim)	Agent for neutropenia associated with chemotherapy	14,200	13,700	-3.5
Tamiflu (oseltamivir)	Anti-influenza agent	—	12,500	—
Rythmodan (disopyramide)	Antiarrhythmic agent	9,200	8,500	-7.6
Furtulon (doxifluridine)	Antitumor agent	—	8,100	—
Suvenyl (sodium hyaluronate)	Agent for knee pain associated with rheumatoid arthritis	5,800	6,000	3.4
Oxarol (maxacalcitol)	Agent for secondary hyperparathyroidism in hemodialysis patients	4,800	5,200	8.3
Kytril (granisetron)	5-HT3 receptor antagonist anti-nausea agent	—	5,100	—
Herceptin (trastuzumab)	Anti-HER2 monoclonal antibody, antitumor agent	—	3,500	—
Rituxan (rituximab)	Anti-CD20 monoclonal antibody, antitumor agent	—	3,000	—
Rocephin (ceftriaxone)	Cephem-type antibiotic ceftriaxone sodium	—	2,000	—
Rohypnol (flunitrazepam)	Agent for treatment of insomnia	—	1,800	—

Sales of former Nippon Roche products are for six months period from October 2002 to March 2003. Sales by each product are not disclosed for the fiscal year ended March 2002.

In the field of cardiovascular diseases, sales of *Sigmar*[®], an antianginal drug, declined 0.6% year-on-year to ¥15.5 billion, and sales of *Rythmodan*[®], an antiarrhythmic agent, declined 7.6% year-on-year to ¥8.5 billion. *Rythmodan*[®] has secured a relatively high market share of about 20% in the antiarrhythmic agent market for over 20 years.

In transplant, immunology and virology, the anti-influenza agent *Tamiflu*[®] saw a much higher- than-expected growth due to a major outbreak of influenza and sales amounted to ¥12.5 billion. We had problems supplying a sufficient amount of *Tamiflu*[®] as a result of three factors: (1) delays in supplying dry syrup for pediatric patients due to a quality control problem, (2) an exceptionally rapid rate of increase in the number of influenza patients in the beginning of the season compared with previous years, and (3) a higher-than-expected increase in demand as this year's influenza outbreak was the largest in recent years. Our production plan had estimated the number of patients at 6 million, which was the average of the past ten years. For the next flu season, however, we have set a production plan based on 10 million patients, which is the highest estimated annual number of diagnosed patients over the past ten years.

Strategies for fiscal year ending December 31, 2003

We expect a tough market environment again in fiscal year ending December 31, 2003 due to the influence of the government's measures to reduce medical expenses. To deal with this situation, we will pursue further expansion in sales of existing products and smooth market penetration for new drugs by enhancing our marketing capabilities.

We expect four new products to be introduced to the market in the fiscal year ending December 2003. These include *Xeloda*[®], *Renaget*[®], *Pegasy*[®], and *Evista*[®].

Xeloda[®], an anti-tumor agent, has already been introduced in late June for the treatment of breast cancer. *Xeloda*[®] is also under development for the indications of gastric cancer and colorectal cancer, and projected yearly sales are seen peaking at over ¥10 billion. *Renaget*[®], a treatment for hyperphosphatemia in hemodialysis patients with end-stage renal disease, was also introduced in late June. *Renaget*[®] was co-developed with Kirin Brewery Co., Ltd. Projected annual sales of *Renaget*[®], combined with

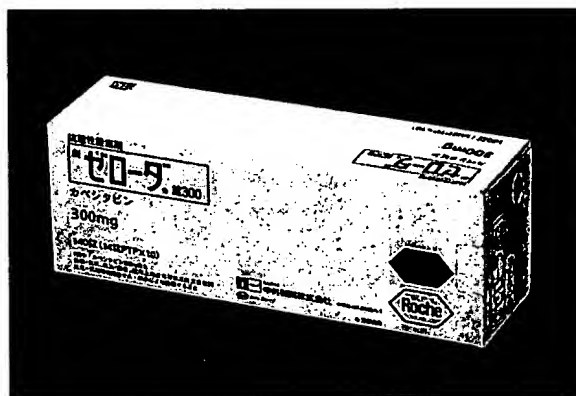
those by Kirin Brewery, are seen peaking at approximately ¥13 billion.

We expect to obtain approvals for *Pegasy*[®] and *Evista*[®] within 2003. *Pegasy*[®], a pegylated interferon for the treatment of chronic hepatitis C, has the advantage of prolonged serum half-life, which reduces dosage from the three times a week for conventional interferon to once a week. A study has also assessed the efficacy of *Pegasy*[®] in patients with little or no response to conventional interferons. The number of patients suffering from chronic hepatitis C is estimated at 700,000, and we project peak annual sales of ¥20 billion, assuming that combination therapy together with *Copegus*[®], a ribavirin currently under clinical development, is approved.

Evista[®], a selective estrogen receptor modulator (SERM) used to treat osteoporosis in postmenopausal women, co-developed with Eli Lilly Japan K.K., has become the subject of a large-scale clinical trial (Multiple Outcomes of Raloxifene Evaluation "MORE" trial) overseas, based on the successful results of phase-III clinical trials (bridging study). The MORE trial demonstrated that the drug has high efficacy in treating osteoporosis while reducing risks of breast cancer. We estimate millions of potential patients for the product and we project annual sales to peak at ¥20 billion.

In addition to the above, we reached agreement with Yamanouchi Pharmaceutical Co., Ltd for the transfer to Chugai in October 2003 of the sales and marketing rights for *Euglucon*[®], an oral treatment for diabetes, and for *Lanirapid*[®], an agent for cardiac glycoside.

*Product name is provisional.



Xeloda[®]

2. Nonprescription products (OTC products)

Chugai's nonprescription products include *Guronsan*®, *New Guromont*®, both nutritional supplement drinks, *New Chugai Ichoyaku*®, a gastrointestinal medicine, and *Varsan*®, insecticides for household use. Due to a slow-down in consumer spending, sales of nonprescription products in the fiscal year under review were ¥19.9 billion, down 13% year-on-year.

In this business, we introduced a divisional company system in fiscal year ended March 2001 to achieve independence in profitability. To achieve further reductions in fixed expenses and enhance cost competitiveness, we have decided to either close or sell two plants mainly producing drinks, and to outsource production. We will close our Matsunaga Plant, which produces *Guronsan*®, in December 2003. Production of *Guronsan*® will be outsourced to Dydo Yakuhin Kogyo Co., Ltd. As for *New Guromont*®, we outsourced its production by transferring our Takaoka Plant to Fuji Pharmaceutical Co., Ltd., as of March 31, 2003. We will continue to enhance our operating efficiency and profitability in the nonprescription business by introducing differentiated new products.

• Overseas market

Sales in overseas markets in the fiscal year under review declined 46.9% year-on-year, to ¥15.4 billion (including exports), mainly due to the spin-off of Gen-Probe. Overseas sales now represent 6.5% of our net sales, down from 13.8% in the previous fiscal year. As can be seen in the breakdown by major products below, sales of Lenograstim (Product name: *Granocyte*® in overseas market, and *Neutrogin*® in the Japanese market) increased 133% to ¥11.4 billion, due, in part, to a change in the basis of consolidating Chugai Aventis S.N.C., from equity accounting to full consolidation. *Granocyte*® is sold in 70 countries around the world through subsidiaries and joint companies in the U.K., Germany, France and Taiwan. In addition, export sales of Nicorandil (*Sigmart*® in the Japanese market) saw significant growth of 31.6% year-on-year, to ¥2.5 billion, following favorable results in large-scale clinical trials conducted in Europe. Nicorandil is sold in 11 countries in Asia and Oceania, mainly under license contracts.

Main nonprescription products (OTC products)

Product name	Remarks	Sales (Millions of yen)		
		2002/3	2003/3	Change (%)
New Guromont, Guronsan	Nutritional supplement drink	¥11,400	¥8,600	-24.6%
Varsan	Insecticides for household use	7,100	6,600	-7.0
New Chugai Ichoyaku	Gastrointestinal medicine	1,600	1,600	0.0

Main products, prescription pharmaceuticals (Overseas markets)

Generic name (Name in Japanese market)	Remarks	Sales (Millions of yen)		
		2002/3	2003/3	Change (%)
Lenograstim (Neutrogin)	Agent for neutropenia associated with chemotherapy	¥4,900	¥11,400	133.0%
Nicorandil (Sigmart)	Antianginal agent	1,900	2,500	31.6